RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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NEW HIGHS: February 13 -- a new high in the S&P 500. February 15 -- a new high in the Dow. February 23 -- the Dow closes above the fabled 4000 level. The new highs were *unconfirmed* by the D-J Transportation Average, the D-J Utility Average and the advance-decline ratio.

All during 1994, while the advance-decline ratio and the majority of stocks were sinking, the Dow and the big-capitalization averages held within a few percentage points of their record highs. In other words, regardless of what the majority of stocks were doing, the "big" stock averages were refusing to fall apart.

I wrote that where the markets are concerned, "what won't go down will surely go up." Further, I wrote that it seems that the gods of the market will not be satisfied until the Dow finally rallies to a new high. So on February 15 Wall Street produced what, evidently, it wanted all along -- namely, a new high in the Dow.

The new Dow high came on February 15 at 3986.17 and was followed by a slightly higher record high the next day at Dow 3987.52. Then, on February 23, the Dow finally surged above 4000 -- to close above that level for the first time in history. As a point of interest, the February 23 high was only about 25 points above the previous record high of 3978.36 *set over a year ago* on January 31, 1994.

The Transports have been telling a different story. Back on February 2, 1994, the Transportation Average set a record high at **1862.29.** A decline set in, but six months later, on August 31, the Transports rallied to a lower peak of 1642.22. Another decline occurred, followed by a third rally which peaked just a few weeks ago on February 15 at 1575.66.

Thus, after a year of waiting we saw the Dow rally to a new record high accompanied by three successively lower peaks in the Transports. At the same time the advance-decline ratio succeeded in recovering only 18% of its February to December losses. In all, not a totally convincing picture, and from a Dow Theory standpoint -- a potentially dangerous picture.

So this is the way I see the situation -- the new Dow high has been a year in coming, but at least the new Dow high will provide market students with a number of advantages; it will allow us to see the importance of the Transport non-confirmations. It will allow us to see how much short covering will enter the market. It will allow us to see what happens as the already low dividend yield on the Dow sinks even lower. And it will allow us to see how much strength can be generated in the "rest of the market" (this last is best gauged by the action of the advance-decline ratio).

Notes: It's well to remember that this is a market in which the Dow hasn't backed off as much as 10% in the last four years. It's also a market that hasn't had a serious correction (such as violating a preceding year's low) in the past 12 years. Therefore, history suggests that the prudent stance is -- be extremely careful.

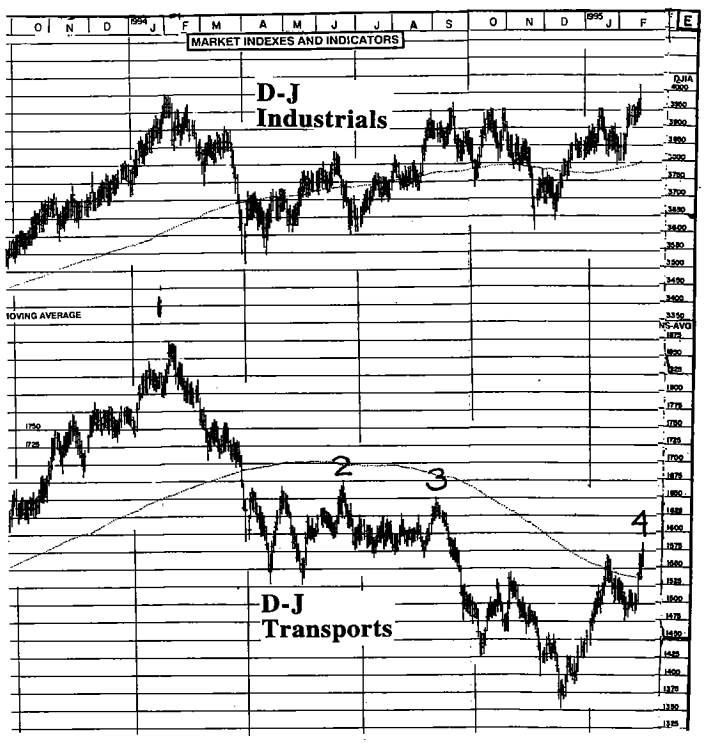
Investment Quality Trends (located here in La Jolla) monitors 350 blue-chip stocks, and grades each stock monthly as being overvalued, undervalued or in-between. In its latest report, *IQ Trends* grades only **7%** of their 350 stocks as "Undervalued Blue Chips." This is the lowest percentage of undervalued on record (going back to the 1960s). This very low percentage is characteristic of a market top.

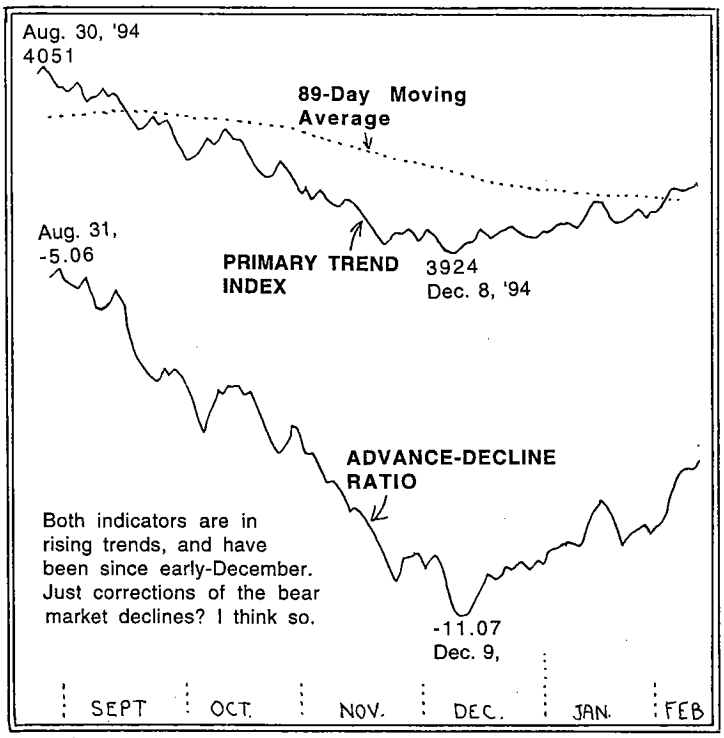
Feb. 17 DJIA 3953.54; PTI 3985; A-D Ratio -8.43
Feb. 23 DJIA 4003.33; PTI 3999; A-D Ratio -8.14
Dow Yield: 2.68%; Dow Price/Earnings: 15.9
Dow 200-day MA: 3810; Dow 30-day MA: 3914
Dow Times Book Value: 3.52; PTI 89-day MA: 3965
Percentage of Undervalued Blue-chips: 7%
Dow Low Risk Buy Index: +11; Gold-PTI: 720
Gold 200-day MA: 383.99

THE PICTURE: A bit of Russell history: I've been watching the stock market since 1946. During the mid-'40s I used to go down to the old Bache office on Lexington Avenue (I think it was at 43th Street -- NYC, of course) where a classmate of mine was a real, live, practicing stock broker. Of the 108 boys in my senior high school class at Horace Mann School for Boys, only one went to work as a stock broker (Wall Street was definitely not popular at that time). This fellow's name was Morris Gratz. The reason Morris Gratz decided to be a broker was that his family had money, and the family wanted one of the boys (I believe there were three brothers) to learn how to handle the family's assets.

So I would sit there with Morris and watch the ticker tape drift lazily by. In those days volume on the NYSE would run around 1.5 to 2 million shares a day. A big day, a very big day, would be around 3 million shares. So we would just sit there for hours watching the tape go by, and within a year I think I knew just about every stock symbol on the Board. A large percentage of the stocks traded were utility issues, since utilities were considered reasonably safe and, moreover, they offered attractive yields. Back in the '40s (remember, the Depression '30s were still fresh in every investor's mind) safety was a very big consideration.

This chart (courtesy of *Market Charts,* 10 Hanover Sq., NYC 10005) shows the dramatic and extended divergence that exists between the Industrials and the Transports. In the face of the advancing Dow and the record Dow high, the Transports have traced out a series of three declining peaks. It's one for the history books.





When you bought a stock in 1946 you weren't thinking of making a killing, you were thinking in terms of whether the stock would hold up if "things went wrong." You see, in the years right after World War II everybody was convinced "with all our boys coming home," that it was just a matter of time before the nation would sink into "another depression". Of course, that never happened, although a severe recession did hit during 1948-49, just as a great bull market was born (the bottom for the market was struck on June 13, 1949 with the Dow at 161.60).

Well, what does this all lead up to? Just this -- as I said, I've been watching the stock market on a daily basis for 49 years, and it's been a fascinating, never-boring experience. I've said this before, but I might as well repeat it -- maybe 10% or 15% of the time I feel as though I've really got a handle on the market. I really feel as though I know what to expect -- and wonder of wonders, the market does just what I thought it was going to do.

But that other 85% to 90% of the time, ah, that's the problem. Because 85% to 90% of the time I'm mildly to severely puzzled. And I'm wondering, "What the hell is this market doing?" But then I console myself with the old adage, "the market always does what it's supposed to -- but NEVER WHEN."

Now let me bring this rambling up to date. I'd say that in all honesty the current market is one of the more difficult markets that I've ever watched, and certainly one of the most difficult markets I've ever tried to figure out.

From personal experience, I can make this statement -- a large part of the art of technical analysis entails (1) what to use (or what to believe) and (2) what to throw out (or what not to trust). Example -- you can follow a certain technical indicator for years, and that indicator will serve you well. Then maybe that indicator gains too large a following, and your instinct tells you to look elsewhere. And very often your instinct will be right.

All of which entails a constant search for useful indices and indicators that not too many people follow. Along these lines, one area that currently fascinates me is market **volatility.** Volatility is simply another word for market activity, or how much a given market is moving, either up or down.

I've written about this before, but note that we've just concluded an unprecedented three years of historically low volatility in the stock market. This year, 1995, is starting out as a fourth year of extremely low volatility. In other words, percentage-wise, the stock market just hasn't been doing very much in the way of advancing or declining.

By the same token, volatility in gold has been running extremely low for months on end. The last time gold volatility was this low was during 1990, prior to a healthy rise from the 340s to over 400.

Interestingly, in the past,very low stock market volatility has been followed by declines. Conversely, however, very low gold price volatility has been followed by advances.

Obviously, I don't know what's going to happen, but I find it fascinating that with the major averages at record highs, stock market volatility is still so low. It's eerie, it's weird, it's very, very strange.

At the same time we see gold sitting just below the 380s with gold volatility running at very low levels. Confession -- on this basis I just bought 25 gold call options -- June 400s at a price of 1.30, which means that I paid $130 plus commissions for each option. The 25 options give me a call on 2,500 ounces of gold at 400 (i.e., at 400 dollars or over these options go "in the money"). But obviously, these options must "work" before June.

Note: This is a rank speculation against price and time. I don't recommend this kind of thing for anyone who is not experienced in option trading, and it's not for anyone who cannot afford to lose money. The reasons I bought these options were (1) low volatility, which means the options tend to be "cheap," (2) the sentiment is so poor regarding gold that any gold rise would go against consensus expectations, (3) gold has held stubbornly above the critical 368-370 level, and (4) I don't care for the stock market action, or at least I find it weird, and if the stock market does top out I think this would constitute an important plus for gold.

INVESTMENT POSITION: In a recent Letter I stressed that probably the most important single thing you can do in investing is to avoid large losses. Sounds ridiculous? Sounds naive? Sounds self-evident? It isn't. The accompanying letter appeared in the Feb. 20 issue of *Barron's.* What this letter is saying is that, as a long-term holder, if you rode your portfolio through the monster loss periods of 1929-32 and 1973-74 you might have spent all the intervening years just trying to get even. In other words, bear markets can kill you.

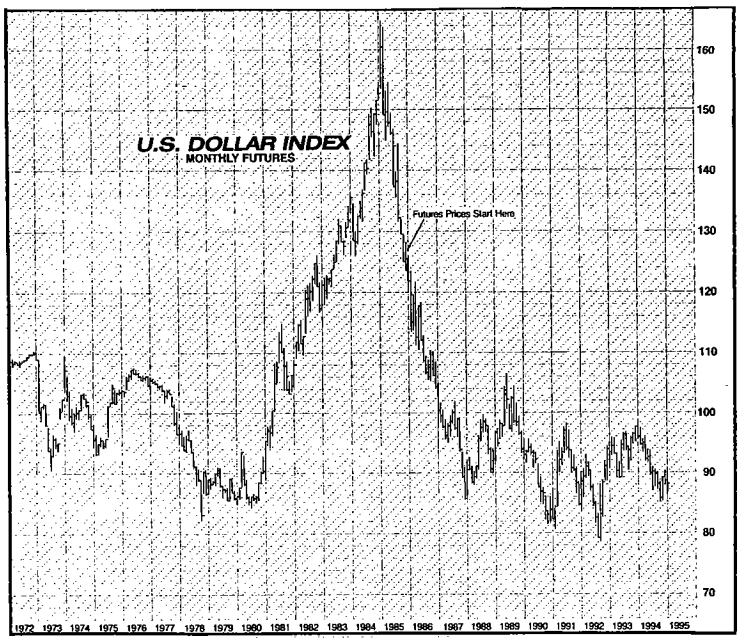
FEBRUARY • Has anyone not been told by now that stocks are the best financial investment, outperforming bonds and bills by wide margins in the long run? However, a closer look at the historical pattern of stock returns casts great doubt on what has become conventional wisdom. In fact, the great advantage of owning stocks is due to just three periods lasting a total of only 33 out of the last 73 years – the bull markets of 1922-29, 1949-65 and 1982-89. In the two big declines of 1929-32 and 1973-74, returns averaged a negative 25% per year. And in the other four periods or 35 years, average returns were too small to offset those losses. The pattern suggests we are due for another major decline, especially given the many similarities in economic and financial risks today compared to 1972 and 1929. We are faced with one of the great opportunities to beat the averages by selling stock.

–DOUG KORTY

I don't think many people made money last year (unless they were heavy in Berkshire-Hathaway or Microsoft). And I don't think many people are going to make money this year (and yes, I know the 49ers won the Super Bowl, and yes, I know this is a fifth year in the now widely-publicized decennial pattern, and believe me, I know that women's skirts are short to non-existent).

They say an investor is a trader who's waiting to get his money back. I don't want that to happen to my subscribers. This is a time for patience, and I assume you are aware that the 91-day T-bills offer better than twice the yield on the Dow. Mutual funds? There are around 6,000 of 'em now, and I doubt if there are 6,000 smart mutual fund managers in the wings.

This is one high-priced market with stocks returning little in the way of dividends. I see it as a greater fool market, meaning, buy 'em here and hope to sell them higher to a greater fool.



THE DOLLAR: In the seven years between 1985 and 1992, the dollar's value (using the Dollar Index as a measure) against international currencies fell more than 50%. It was an ugly picture. Then, from the 1992 low of roughly 79 the Dollar Index rallied to just under 98. The Dollar Index started down again, and late in 1994 the Index broke fractionally below 86. As this is written, the Dollar Index is fluctuating around the 87 level.

In the "old days" there was a definition for the dollar. The dollar was defined in terms of grains of gold. On January 30, 1934 Congress passed the Gold Reserve Act of 1934 which authorized the President to declare a new gold content. The devaluation (against gold) reduced the dollar's gold content from 23.33 grains of fine gold to 13.71 grains of pure gold, a reduction of 59%. But at least there existed a definition for the dollar; the dollar was defined in terms of a specific weight of gold.

On August 15, 1971 (due to a torrential outflow of gold) Nixon unilaterally closed the "gold window" by refusing to have the Treasury redeem in gold any foreign-held dollars. This repudiation marked the collapse of the Bretton Wood system.

On February 13, 1973 the US announced a devaluation of the dollar from $38 per ounce of gold to $42.22. However, no official transactions have ever taken place at the new price.

During the period of the early '70s an "international gold pool" was organized, but it was obvious that the dollar was detached from gold and all currencies were left to "float" free in the international currency markets.

Today, there exists no definition for the dollar or for any other currency. All float against each other with no intrinsic anchor. What this means is that the various central banks have control of the world's money supply, and the only worry the central banks have is a too obvious over-production of fiat currency (since this would create inflation). Inflation of 2-3% is acceptable, but when inflation climbs above 6% it becomes a political problem. Of course, even at 3% inflation the purchasing power of a nation's currency is halved in about 35 years.

Right now what stands behind the dollar is confidence, confidence that the Fed will not allow inflation to increase, confidence that the dollar will continue to be legal tender, confidence that the dollar will hold its own against other fiat currencies.

The dollar is the world's reserve currency. Every foreign nation (except the Fed) owns two reserves, gold and dollars. One ominous sign, however, is that central banks the world over are reducing their percentage of dollars as against other strong currencies, mainly the yen and the D-mark. Slowly but surely, the world's confidence in the dollar is eroding.

NOTES & QUOTES: Looks like we own Mexico, or at least we own Mexico's oil. Watch for increasing resentment and a crushing recession South of the Border. Also, keep your eye on what's left of the peso . . . Meanwhile, Fed chief Greenspan says the "torrid" economic expansion in the US is cooling off and we can look for growth to back off to a comfortable 2-3%. Dat Greenspan, he's a genius.

* *

Few newspapers carried the item, but here it is. The Republican dominated Senate on Feb. 14 rejected the proposal (by Sens. Feinstein of Calif. and Reid of Nev.) that would have barred using Social Security Trust Fund money to help balance the budget. Hypocrisy -- the Republicans are admitting that they can't balance the budget or get anywhere near balancing the budget without stealing money from the Social Security Trust. Some day, some year, one of the parties is going to get honest, but obviously it's not going to be in 1995.

* *

Senate Rejects Social Security Budget Exception

By EDWIN CHEN
TIMES STAFF WRITER

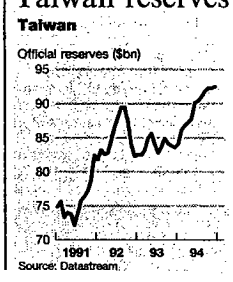
WASHINGTON—The Republican-dominated Senate on Tuesday rejected two Democratic attempts to carve out exemptions to the balanced-budget amendment, leaving the Social Security Trust Fund as a possible target that Congress could use to help cut the deficit.

By a 57-41 vote, the Senate defeated a proposal by Sens. Dianne Feinstein of California and Harry Reid of Nevada that would have barred using the Social Security Trust Fund to help balance the budget.

The Senate also defeated a move led by Sen. Barbara Boxer of California to exempt federal disa-

Money: Jim Grant of *Grant's Interest Rate Observer* (30 Wall St., NYC 10005) notes that average daily volume of financial transactions (currencies) at the Clearing House Interbank Payments System (this is the computer network which handles the transactions of 115 central banks) is running at **$1.3 trillion a day.** Talk about liquidity! . . . And talk about reserves, who's got the world's biggest reserves? Why none other than little Taiwan, that exporting-machine off the coast of China. According to the *Financial Times*, Taiwan's reserves (gold and foreign currency) are pushing over $93 billion. And yes, Taiwan likes gold.

Taiwan reserves hit record high



Taiwan's foreign exchange reserves hit a record high of US$92.454bn (£59.3bn) at the end of December 1994, the central bank said. December reserves were up from $92.263bn in November and $83.573bn a year ago. It was the second consecutive month of rises in foreign reserves. Gold reserves at end-December were at 13.565m fine troy oz, unchanged from November and slightly up from 13.558m oz in December 1993. *Taipei, Reuter*

* *

Warren Buffett recently bought large chunks of PNC Bank Corp. and American Express. Both stocks immediately popped higher. And I wonder, is Buffett getting too much exposure? Is he being likened to God? I've been a Buffett fan and follower for over two decades, but I don't get a good feeling about all the increasing attention and adoration. There are no gods on Wall Street, never have been, never will be. People are even saying that since Buffett is buying, the stock market must be bullish and therefore a buy. C'mon. As previously noted here, two Warren Buffett books are

currently for sale at your local bookstore (one, a best-seller). The Buffett philosophy has been to buy a good stock and hold it until the hereafter. Furthermore, all market declines are good, because they allow you to load up on your favorite company at a bargain price. The Buffett philosophy seems finally to have permeated Wall Street and Main Street. Never sell, just buy? Every decline an opportunity? I get this uneasy feeling that the Buffett books should have been published in 1974 or 1982 when stocks were cheap. But you know me -- always the kill-joy .

* *

The old adage tells us that when Wall Street's in trouble, the rest of the nation cannot be far behind. We'll see. *New York* magazine (Feb. 15) tells a sad story. States the article, "These are tough times for Wall Street. And no wonder: thanks to a tumble in the bond market that began last April, 1994 was the worst year for the securities industry since 1990, and one of the worst years on record for the bond market. But that fails to get at the magnitude of the past year's trauma. As *Institutional Investor* points out, 'In last year's bond rout, more wealth was wiped off balance sheets than in any other market debacle since the crash of 1929 -- including the 1987 stock market plunge'. . ." The magazine fixed losses for financial institutions and money managers, world wide, at $1.5 trillion . . . "Virtually every major Wall Street firm was shaken by the bond deterioration. At the end of last year profits had dropped more than 75% for the year -- to $1.5 billion . . . At Goldman profits fell an estimated 70%, Bear Stearns was down 54%, Lehman Bros. was off 65% . . . Those not let go in 1994 found out that their yearend bonuses -- which now make up the bulk of Wall Street's salary -- had been hugely reduced. Including regular salary and bonuses, an average banker's yearly pay probably dropped between 25% and 40% in 1994."

* *

Author Peter Benchley from the latest issue *Popular Science*, "I couldn't write 'Jaws' today. The extensive new knowledge of sharks would make it impossible for me to create, in good conscience, a villain of the magnitude and malignity of the original . . . Current theory holds that, with rare exceptions, sharks do not intentionally attack human beings. In fact, most of the 368 species have neither the capacity nor inclination to attack, and only ten or 12 species have been known to even hassle a human." **Russell comment:** I don't care, I still refuse to go surfing.

* *

Now it can be told (it's what I've suspected) -- TV produces more good stuff than Hollywood does. The *NY Times* (Feb. 14) lets the dreaded cat out of the bag: "For a while now, the movie business has been confronted with an uncomfortable fact of life, relevance and humor, prime-time TV -- much of it, anyway -- is far better than what's on at the movies." **Russell comment:** I watch NYPD and Law and Order plus a lot of what's on the Discovery Channel and A & E. And I find most of this far better than the majority of stuff turned out by Hollywood. The reason? Much of Hollywood's output is aimed at the under-21 audience. One Hollywood problem -- it's tough making money on an adult movie, so Hollywood turns to nonsense ("Dumb and Dumber") or an endless stream of mindless action films. The fearful fact: two out of three films lose money, so that studios are always in search of blockbusters to make up for the numerous losses on their other films. Second fact -- there are only 15 stars that can presumably "open" a movie. The rest of Hollywood's actors scramble for good scripts and or any kind of work. And the big stars cost so much that making a movie with one of them (and paying them $7 to $15 million) becomes very risky.

* *

Las Vegas is America's boomtown. Last year 28 million people came to Vegas, feeding money into the slots and games 24 hours a day. Las Vegas was a little town of only 5,100 before the state legalized gambling back in 1931. For six decades Vegas has outpaced the growth of every other American city. It's still the fastest growing city with a population now over one million. Last year Vegas opened three major casinos, adding more rooms at one intersection than exist in all of my home town of San Diego. But Vegas is trying to change its image. Fact: Vegas boasts the highest percentage of churches, synagogues, temples, civic organizations and children's leagues of any US city. Get this -- casinos brought in $6 billion in '94, and that funded 43% of Nevada's general fund. Which gives business and citizens of the state fewer taxes (no state income tax) and cheaper housing (median cost $126,000) than its neighboring states of California, Arizona and Utah. Result -- four to six thousand people a month are pouring into the state. **Russell comment:** Lest this sound like a Chamber of Commerce ad, let me also state that Las Vegas is on the desert and the summers get hot, hot, hot. Even in early May, Vegas gets too hot for me. Incidentally, there's a whole real world in Vegas off the strip. I know people who grew up in Las Vegas who have literally never visited the casinos. A problem -- Las Vegas has a limited amount of water, and that limit is getting ever-closer.

* *

Canada is the place to watch. The Canadian dollar is down around 71 cents, and I've been wondering whether it isn't a buy. Canada's economy is close to booming, exports are indeed booming, and the nation is a treasure-trove of natural resources. Ironically, however, Canada's finances are in bad shape. More than a third of Canada's total federal revenues now go to pay interest on the national debt (about 40% of Canada's debt is held by foreigners). Total government debt is a whopping $740 billion, this in a nation with a population of only 27 million (less than the population of California). The Fraser Institute, a Canadian think tank, rates Canada's indebtedness 46th worst in the world, lower than Burundi and just ahead of Morocco. On top of this, Canadians are among the most heavily taxed people in the world, with roughly 50% of their income going to the government (in the US it's about 40%). World economists are watching to see whether Liberal Party Prime Minister Jean Chretien will move to make meaningful budget cuts. The betting is that he'll make some cuts, but not enough. With foreigners holding so much of Canada's debt, however, the money markets may put the pressure on Canada to make the big cuts. Note: I don't think it will happen, but if the Canadian dollar breaks below 69 US cents -- watch out.

* *

Talk about a racial split. The latest Lou Harris poll shows that 68% of blacks believe O. J. is innocent and only 8% think he's guilty. Among whites 61% think he's guilty. **Russell comment:** Of the 12 jurists, nine are black. Odds on a guilty conviction? Are you kidding me -- I'd say the odds are about zero.

* *

A main argument against the flat tax or the consumption tax is that they are not progressive. But is there a moral argument against progressivity? Bruce Fein, intern for Rep. Dick Armey, makes the case: "The indolent pauper who has squandered the countless opportunities in the US for training and employment owes to society a moral debt for contributing nothing to its strength; whereas the persevering high-income earner is entitled to a moral credit for conduct that contributes to the pleasure of others and augments the nation's wealth. High incomes should be taxed no more heavily than lower incomes; they should receive lighter taxation to reward conduct that most advances the happiness of others." **Russell comment**: I say, tax all incomes the same, with exemptions for those at or below the poverty line.

* *

A gentleman subscriber out of Ft. Collins, CO sent me this delightful tabulation on our total debt: US Government debt -- **4.8 trillion**; unfunded liabilities (Social Security, Medicare, unemployment comp., veterans benefits, federal pensions) -- **$18 trillion**; non-Federal debt (private debt, individuals, corporations, cities, counties, states) -- **$10 trillion.** Grand total -- **$32.8 trillion. Russell comment:** With these figures in mind, you can imagine how rising interest rates affect the nation.

* *

For the past few years I've been saying that the money market has become much more sophisticated and that the "bond vigilantes" will not stand for inflation. The figures (courtesy of Ed Hyman of *ISI*) prove it. During 1994-95 the Fed upped the Fed Funds rate by 300 basis points. But look at history over the past five instances of Fed tightening. Where one-year Treasuries went up 160 points on average in the past five instances, they rose 320 points during 1994-95. Where the prime rate advanced 125 points in the past five instances, they rose 300 points during 1994-95. But the big change was in mortgage rates -- where mortgage rates went up 50 points

on average during the past five instances, they rose 190 points during 1994-95. Obviously the bond vigilantes are "mad as hell, and they aren't going to take it anymore."

* *

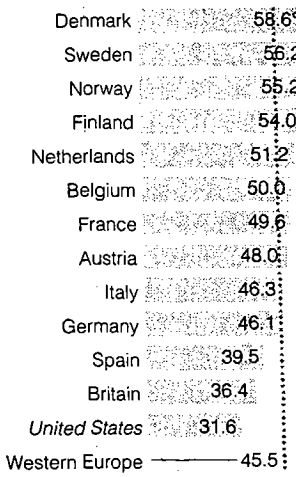
I read a lot of newspaper and magazine editorials, and the best I read are in the *WSJ* and in *Investor's Business Daily.* In fact, the editorials in *Investor's Business Daily* are amazingly good (I wonder who writes them?). I also like the editorials in *Forbes* and in *US News & World Report.* But for all around concentrated US and global information I continue to recommend the *International Herald Tribune* (owned jointly by the *Washington Post* and the *NY Times*). For info on the *Trib* call (800) 535-2884. Canada, call (800) 535-8913. And no, I don't work for the *Trib.*

* *

Money Problems: *Money Strategies,* a company in Boulder, CO, teaches a course for wealthy people, but only people who have inherited so much wealth that they never have to work (self-made millionaires are not accepted). *Money Strategies* finds that many of those who inherit money feel useless and suffer from low self-esteem. The question these wealthy heirs fear most is "What do you do?" Another problem for heirs is isolation. They are taught never to discuss money, to distrust most people (heirs tend to fear that anyone interested in them is really only interested in their money).

Western Europe's Tax

Taxes In Western Europe Are High . . .
Government tax revenues as a percent of gross domestic product in 1994.



Source: Organization for Economic Cooperation and Development

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The Feb. 16 *NY Times* ran an article on European taxes and here's the rundown on the government's tax take as a percentage of GDP. The only thing is that in Europe for their high taxes they get a lot -- full medical, nursing home care, fat retirement pensions, college tuition paid for. However, in many cases the cost of all this is so high that the trend now is to cut benefits to some degree. However, here in the US what do we get for our high taxes? Basically, we get BIG, inefficient government and little else. I figure I pay 38% in federal taxes, 11% for state taxes, a 7.5% California sales tax, a big Social Security tax, and what's it all for? You tell me. Is it any wonder Americans are fed up with Washington, big government, flappy-mouthed politicians and endless taxes?

* *

I heard that Arnold Schwarzenegger, Lorenzo Lamas, Tom Arnold and a thousand Harley Davidson riders were coming to town to celebrate the opening of San Diego's new Planet Hollywood. So last Saturday pal Mike Susak and I got on our Harleys and rode downtown to see what it was all about. Huge crowd, the city crawling with Harleys, rock bands blaring, and probably most interesting -- a good many leather-clad lady Harley riders, and I don't mean passengers. We ran into friend "New York Mike," manager-owner of San Diego Harley, who told us he was throwing a big party at his Harley agency that afternoon. New York Mike (he's a pony-tailed black belt) is a maniac-rider. He rode his bike to the Super Bowl (San Diego to Miami, in four days, three-and-a-half days back), and let me tell you, that's an insane amount of riding. The party was big and wild, replete with characters of every description including the local Hell's Angels. Much ear-splitting rock music, the requisite carloads of pizza, chicken wings and beer, but absolutely no violence. In all, quite a day.

* *

From our "Nothing Succeeds Like Excess Department": Robert Earl, one of the two principals behind Planet Hollywood (with part-partners Stallone, Schwarzenegger, Bruce Willis and Demi Moore) is now working on a new theme restaurant concept called All-Star Cafe. This one will have celebrity part-owners from the sports world including Agassi, Montana, Gretsky, etc. **Russell comment:** I give the theme restaurant idea about five years or less, and then they'll be history. Why? People will be bored with them. By the way, have you noticed the price wars currently being waged by the fast food eateries? Big hamburgers now down to 95 cents. What's next, a nickel cup of coffee? You probably don't remember a five cent cup of Java and 17 cent gasoline but I do.

* *

I started smoking in 1943 and I quit in 1970. Starting to smoke was the dumbest thing I ever did (who knew back then?), and quitting was the best thing I ever did. I call tobacco "the Indians' revenge" (in case you forgot, the Indians gave us tobacco). A few weeks ago a federal judge cleared the way for the first nationwide class action against the tobacco industry on behalf of 100 million Americans who smoke or have smoked. Judge Okla Jones II (Eastern District of Louisiana) set the stage for the biggest class action suit in history. So far, the tobacco companies have beat every case; they've never paid a cent in court. This case promises to be different. Said Mat Myers, counsel to a consortium representing the Amer. Cancer Society, the Amer. Heart Assoc., and the Amer. Lung Assoc., *"There is the potential for a staggering punitive damage award in this case, which has the potential for changing the way the tobacco industry does business for all time."* The suit will pit the major US tobacco companies against a consortium of 60 prominent negligence law firms including (ta da) the firm headed by San Francisco lawyer, Melvin Belli. Get this -- each of the 60 law firms will contribute $100,000 a year or $6 million a year, to cover expenses. Says Faye, my lawyer wife, "Wow, shows you what they expect to receive if they win this case." The suit, by the way, accuses the tobacco firms of negligence, fraud and deceit.

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AGE: The oldest (actually documented) person is Jeanne Calment of Arles, France. She's 120 and says, "I see badly, I hear badly, I can't feel anything, but everything's fine." Amazingly, she stopped smoking three years ago. As a young lady, she used to take vigorous daily walks, ate two pounds of chocolate a week and lived in an area where olive oil was a staple. As a young lady, she met the great Vincent Van Gogh, but wasn't impressed . . . Then there's 93 year old Benny Waters, veteran jazz man (tenor sax) who played at the birth of jazz with the legendary King Oliver. Incredibly, Waters has been playing the sax ever since (he has new CDs on German and American labels). Says Waters, "I spent a lot of time being bad. I drank heavily, I smoked, I stayed up all hours playing cards, not to mention women. I gave up smoking in 1935 when I found I couldn't breathe. I stopped drinking in '69 in Paris." He jokes, "If I'd known I was going to live this long, I'd have taken better care of myself." **Russell conclusion:** There's no substitute for good genes, God's blessing, honesty and a sense of humor.

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Speaking of a sense of humor, have you ever had to deal with a person who didn't have one? If you did, you know what a deadening, grim experience it is. Incidentally, I noticed that psychopaths and schizophrenics lack a sense of humor (and yes, I've dealt with both). Actually, the ability to laugh is healthful. The great psychiatrist, Frederick Perls said that the human organism can release four "explosions" -- anger, orgasm, laughter and grief. An inability to release any one of these suggests major problems.

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I don't know what our government does to produce inflation figures of only 2-3%, but their figures don't jibe with my experience. Von's grocery store just raised the price of Egg Beaters (no yolks, no fat) from $2.19 to $2.39, and I eat these every day. The price of my daily pita bread keeps going up. The *NY Times* just announced that it was raising the price of its Sunday paper nationwide from $3.50 to $4.00 because the cost of newsprint, the newspaper's "largest single raw material cost," has risen more than 30%, and "further increases in newsprint are scheduled to take place in 1995." A subscriber and manufacturer just sent me four letters (he received them all on the same day) advising him of basic material price increases. The fact is that the price of raw materials keeps climbing, and these costs will filter into the CPI. I don't care

what the Bureau of Labor Statistics says, the price of most of the things I use are rising.

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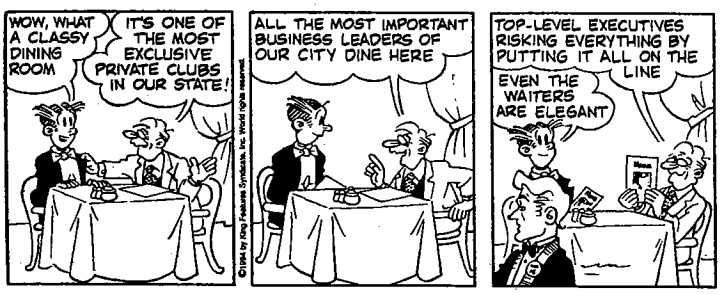
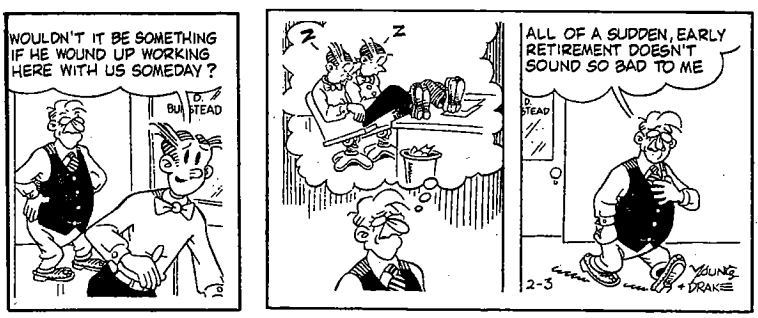
When I was a kid I loved the "funnies." I used to dash out at 7AM Sunday morning to buy the *Sunday News*. Cost for the Sunday edition was a nickel. The paper featured the exciting, full-color adventures of Dick Tracy on the cover. Now my comic reading is confined pretty much to Blondie. The strip includes Dagwood's never-ending struggle with his boss, the long-suffering Mr. Dithers. I love this strip, and for me, it's always good for a laugh. Indulge me, dear readers, because here are a few examples (and it's OK if you laugh, remember, there's more to life than beating the stock market).

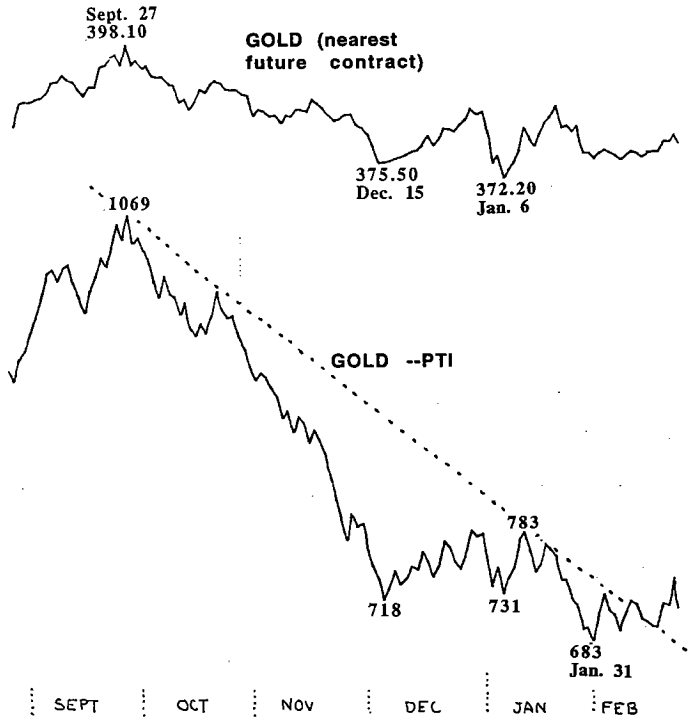
BLONDIE *by DEAN YOUNG and STAN DRAKE*

LOOK AT BUMSTEAD CONCENTRATE! WHAT A BEAUTIFUL SIGHT!
WHEN THE DEAR BOY GETS GOING LIKE THIS, NOTHING CAN STOP HIM!
HE'S AN INSPIRATION TO ALL...
HAVE YOU GOT IT READY FOR ME?
FOUR SPRING ROLLS, ONE SWEET AND SOUR PORK, ONE FRIED RICE AND ONE BEEF WITH SCALLIONS
7-18
YOUNG + DRAKE


WOW, WHAT A CLASSY DINING ROOM
IT'S ONE OF THE MOST EXCLUSIVE PRIVATE CLUBS IN OUR STATE!
ALL THE MOST IMPORTANT BUSINESS LEADERS OF OUR CITY DINE HERE
TOP-LEVEL EXECUTIVES RISKING EVERYTHING BY PUTTING IT ALL ON THE LINE
EVEN THE WAITERS ARE ELEGANT


WOULDN'T IT BE SOMETHING IF HE WOUND UP WORKING HERE WITH US SOMEDAY?
BUMSTEAD
Z Z
ALL OF A SUDDEN, EARLY RETIREMENT DOESN'T SOUND SO BAD TO ME
BUMSTEAD
2-3
YOUNG + DRAKE

NEXT MAILING: Mar. 15, 1995



GOLD: I wrote earlier that I bought the June 400 gold options (they expire in mid-May). I bought those largely on the basis that gold hasn't broken down, that the sentiment against gold is black-gloomy, and lastly, that gold is beginning to act a bit better.

My gold PTI offers some encouragement, not a lot, but some. Two things have happened to the gold PTI in February. First, the G-PTI has bettered two minor preceding peaks, as you can see on the chart. Second, the G-PTI has bettered a declining trendline, a trendline that starts from the September peak and connects with the January high.

Obviously, what is needed now is an advance by the G-PTI above the January high of 783. If that happens, it will be the most encouraging development for gold in a long time.

There isn't much more I can say about gold here (I don't want to go into the usual supply and demand arguments and whether some central bank or other is buying or selling). No, at this point it boils down to this -- will my G-PTI better the 783 level?

LATE NOTES: February 23, a banner day in stock market history as the Dow closes above the 4000 level. But the important question -- can the Dow hold above 4000 while the Transports, the Utilities and the majority of stocks (as measured by the advance-decline ratio) catch up?

The market is overvalued and overbought, so any decline here will have to be watched carefully. In truly powerful markets, the "back-off" or corrective phase is accompanied by sharply shrinking volume and a reluctance by breadth to come down hard.

The Transportation Average continues to receive a lot of my attention. As this is written, the Transports are still substantially below their peak of last August 31 of 1642.02, and far below their February 2, 1994 record high of 1862.29.

The Mexican situation could be just this side of scandal, since many parties knew that peso devaluation was on Mexico's agenda prior to NAFTA. Watch for a Mexican recession-depression as interest rates there sky-rocket and as investors both in Mexico and outside bail out of what's left of their investments. The Federal Reserve will "take over" Mexico's oil industry as collateral, and I look for South-of-the-Border resentment to reach the boiling point. Can the Zedillo government stand? We'll see.